

Message Text

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C O N F I D E N T I A L SECTION 1 OF 4 TOKYO 9484

PASS TREASURY

E.O. 11652: GDS

TAGS: EGEN, OCON, JA, C-20

SUBJ: ECONCOM IX - COUNTERPART MEETING MOF-TREASURY

1. FOLLOWING IS UNCLEARED MEMCON OF DISCUSSION DURING
TREASURY-MOF COUNTERPART LUNCH JUL 17, WHICH CONFINED
ALMOST EXCLUSIVELY TO SUBJECT OF MONETARY REFORM:

PARTICIPANTS: FROM MOF - MIN AICHI; MESSRS. HOSOMI, INAMURA,
MATSUKAWA, OKURA, FUJIOKA, SAWANO, GYOTEN, TSUKAGOSHI,
KURIYAMA; FROM TREASURY - UNDER SEC VOLCKER; MESSRS F. LISLE
WIDMAN, THOMAS LEDDY, OSCAR MACKOUR, WILLIAM R. WEBER,
WILLIAM E. ESCOUBE.

2. THE DISCUSSION BEGAN BY MR. INAMURA NOTING WORLDWIDE
CONCERN OVER THE INSTABILITY OF THE PRESENT MONETARY
ARRANGEMENTS. CONSEQUENTLY THERE WAS NEED FOR RAPID
CONCLUSION OF THE REFORM NEGOTIATIONS. MIN AICHI
COMMENTED THAT THOSE NEGOTIATIONS WERE CREATING NOT ONLY
ECONOMIC BUT ALSO POLITICAL PROBLEMS FOR THE WORLD. THE
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RECENT INSTABILITY OF CURRENCIES WAS HELPING TO FEED

INFLATIONARY PSYCHOLOGY EVERYWHERE SO THAT PEOPLE WERE MOVING OUT OF MONEY AND INTO GOODS. CONSEQUENTLY HE WANTED THE REFORM NEGOTIATIONS TO BE COMPLETED AS SOON AS POSSIBLE. FOR SOME TIME HE HAD BEEN ADVOCATING A LATE JULY C-20 MINISTERS MEETING AS A FINAL STEP BEFORE THE IMF ANNUAL MEETING. IT WAS HIS BELIEF THAT THERE WAS BASIC CONSENSUS BETWEEN JAPAN AND THE U.S. WHICH WOULD FURTHER THE PROGRESS TO CONCLUDING THE NEGOTIATIONS. MR. VOLCKER CONCURRED.

3. MIN AICHI REFERRED TO THE TOPICS FOR MINISTERIAL DISCUSSION SUGGESTED BY MR. MORSE, NAMELY AS (1) ADJUSTMENT AND CONVERTIBILITY, (2) RESERVE ASSETS, I.E., SDR, AND (3) THE SDR-AID LINK. HE WONDERED WHY THE U.S. HAD ADDED TWO ADDITIONAL TOPICS TO THAT LIST, I.E., EXCHANGE RATE REGIME AND CAPITAL CONTROLS. HE COMMENTED THAT JAPAN FAVORED THE USE OF CONTROLS AND ASKED WHETHER THE U.S. WAS COMPLETELY ENAMORED WITH THE USE OF OBJECTIVE INDICATORS.

4. IN REPLY TO THESE QUESTIONS, MR. VOLCKER AGREED THAT DELAY IN CONCLUDING THE REFORM NEGOTIATIONS WAS CREATING BOTH POLITICAL AND ECONOMIC PROBLEMS. THE FORMER INVOLVED TO SOME EXTENT SHORT-RUN DOMESTIC PROBLEMS OF COUNTRIES BUT ALSO INVOLVED THE KINDS OF RESPONSIBILITIES COUNTRIES ARE WILLING TO TAKE IN ORDER TO ENSURE SUCCESSFUL OPERATION OF THE SYSTEM. THERE WAS A NEED FOR A "CODE OF CONDUCT" SO THAT COUNTRIES DO NOT GET INTO CONFLICTS WITH EACH OTHER OVER POLICIES THAT ARE TAKEN. THE U.S. WAS EQUALLY ANXIOUS FOR PROGRESS IN THE REFORM NEGOTIATIONS BUT THE OUTCOME MUST BE SENSIBLE. TURNING TO THE PROPOSED JUL MEETING, HE AGREED WITH MIN AICHI THAT A MINISTERIAL MEETING WAS NECESSARY IN ORDER TO REACH CONCLUSIONS IN TIME FOR THE NAIROBI MEETING. HOWEVER, SUCH A MINISTERIAL MEETING MIGHT NOT BE ENOUGH. THE QUESTION WAS WHETHER IT WAS REALISTIC TO AIM FOR AN AGREEMENT AT NAIROBI. HE HOPED THAT THE MINISTERS WOULD BE ABLE TO DECIDE ABOUT REACHING AN AGREEMENT AT NAIROBI, ALTHOUGH SOME PARTICIPANTS FELT IT WAS A BAD IDEA TO TRY TO REACH AN AGREEMENT BY THAT DATE. THE DEPUTIES WOULD HAVE A LOT OF HARD WORK AHEAD IF THE SEPT DEADLINE WERE AGREED UPON. MR. VOLCKER EXPLAINED SECRETARY SHULTZ' VIEW THAT IF A CONSENSUS CAN BE REACHED, ALL WELL AND GOOD, BUT AN ATTEMPT

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TO TRY TO FORCE THROUGH AN AGREEMENT BY NAIROBI COULD MERELY LEAD TO FURTHER CONTROVERSY AND THUS BE COUNTER-PRODUCTIVE.

5. MR. VOLCKER REFERRED TO THE ADDITION OF TWO ITEMS TO THE LIST OF TOPICS FOR MINISTERIAL DISCUSSION AND SAID MR. MORSE WAS INCORRECT IN BELIEVING THAT THESE HAD BEEN COMPLETELY RESOLVED BY THE DEPUTIES.

6. MIN AICHI BELIVED IT WOULD BE USEFUL FOR THE MINISTERS TO HAVE AN EXCHANGE OF VIEWS ON ALL OF THE TOPICS. HE WONDERED WHETHER THERE WERE AREAS WHERE THE U.S. AND JAPAN COULD NARROW THEIR DIFFERENCES, THEREBY HELPING SPEED PROGRESS ON REFORM. PERHAPS IT MIGHT BE EASIER TO AGREE ON SOME OF THE PRINCIPLES INCLUDING (1) A "ONE-WORLD CONCEPT, (2) NEED FOR DISCIPLINE, (3) RELIANCE ON STABLE BUT ADJUSTABLE PAR VALUES. HE UNDERSTOOD THAT SO FAR THE DEPUTIES HAD REACHED A CONSENSUS ON (1) OUTSTANDING DOLLAR BALANCES, (2) THE SDR, (3) CONVERTIBILITY, AND (4) ROLE OF DOLLAR AND GOLD. HE WAS PUZZLED THAT THE DEPUTIES HAD AGREED THAT NO COMMUNIQUE WOULD BE ISSUED FOLLOWING THE MINISTERIAL MEETING. HE BELIEVED THAT SUCH A COMMUNIQUE, EVEN IF IT CONTAINED NO VERY SPECIFIC CONCLUSIONS, COULD BE HELPFUL IN RESTRAINING WORLDWIDE CURRENCY SPECULATION.

7. IN REPLYING, MR. VOLCKER SAID THAT SECRETARY SHULTZ WANTS THE MEETING TO DEAL WITH THE SUBSTANTIVE ISSUES OF REFORM. HE BELIEVES THAT IF A COMMUNIQUE WER TO BE ISSUED, TWO-THIRDS OF THE MEETING WILL BE CONSUMED IN WRITING THE COMMUNIQUE AND THE REMAINING ONE-THIRD IN DISCUSSING THE NEXT MEETING. IN THAT EVENT LITTLE REAL PROGRESS WOULD BE MADE.

8. MIN AICHI SUGGESTED THAT THE COMMUNIQUE COULD BE SHORTER. IF THERE WERE ADVANCE INDICATIONS OF VIEWS GOVERNMENTS WOULD TAKE. THEN PERHAPS THE RIGAMAROLE OF COMMUNIQUE WRITING COULD BE AVOIDED. MR. VOLCKER SAID THAT UNLESS AGREEMENT COULD BE REACHED ON SOME VERY CONTENTIOUS OUTSTANDING ISSUES, THEN THE COMMUNIQUE COULDN'T SAY VERY MUCH. HE BELIEVE
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9. MR. VOLCKER NOTED THAT ONE OF THOSE POINTS WAS THE USE OF "INDICATORS." IN THE PAST, THE ADJUSTMENT PROCESS HAD NOT WORKED WELL BECAUSE COUNTRIES RESISTED THE NEED TO MAKE ADJUSTMENTS. BOTH THE U.S. AND JAPAN HAD DELAYED ADJUSTMENT BECAUSE IT WOULD CREATE DIFFICULT DOMESTIC PROBLEMS. THE NEW SYSTEM MUST FIND SOME WAY TO BREAK THIS TYPE OF NATURAL RESISTANCE OF COUNTRIES AGAINST THE NEED TO ADJUST. THE PURPOSE OF THE INDICATORS IS TO PROVIDE THE CRITERIA.

10. MIN AICHI REPLIED THAT JAPAN WAS NOT OPPOSED TO THE USE OF INDICATORS FOR PURPOSES SUCH AS TRIGGERING CONSULTATIONS. PERHAPS THE U.S. AND JAPAN COULD REACH A COMPROMISE POINT ON THIS MATTER. THE MECHANICS OF THE U.S. PROPOSAL REGARDING INDICATORS AND THE LEVEL OF RESERVES WAS QUITE CLEAR AND SIMPLE, SAID MIN AICHI. HOWEVER, HE FELT IT WOULD BE VERY DIFFICULT TO PERSUADE MEMBERS OF THE DIET THAT A SYSTEM OPERATING ON THAT PRINCIPLE WOULD BE A GOOD THING FOR JAPAN. HE SUGGESTED THE INDICATORS COULD BE USED AS FORMAL RATHER THAN SUBSTANTIVE PRESUMPTIONS FOR THE NEED TO TAKE ACTION. FURTHERMORE, IT WOULD BE NECESSARY, IN PRACTICE, TO RELY ON A VARIETY OF STATISTICAL
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INDICATORS RATHER THAN ON A SINGLE ONE.

11. MR. VOLCKER CONCEDED THAT HE AND MIN AICHI WERE TALKING ABOUT DEGREES OF DIFFERENCES IN THE USE OF INDICATORS. NEVERTHELESS, FORM WAS OF UTMOST IMPORTANCE. HE WAS CONCERNED ABOUT THE OPERATION OF A SYSTEM THAT RELIED ON INTERNATIONAL JUDGMENTS. HE THOUGHT IT WAS A BAD CTIMATE TO INITIATE CORRECTIVE DOMESTIC ACTION IF IT APPEARED THAT "FOREIGNERS" WERE PRESSURING OR ASKING A COUNTRY TO MAKE CHANGES. HE BELIEVED IT WOULD BE BETTER TO TELL THE CONGRESS AND THE AMERICAN PUBLIC THAT IT IS THE "RULES OF BEHAVIOR" AND NOT "INTERNATIONAL JUDGMENT" THAT REQUIRED THE U.S. TO TAKE ACTION.

12. MIN AICHI SAID HE UNDERSTOOD MR. VOLCKER'S POSITION. NEVERTHELESS, HE FELT IT WOULD BE EASIER IN TERMS OF DOMESTIC ACCEPTABILITY IF INDICATORS TRIGGERED A REQUIREMENT FOR IMF CONSULTATIONS. A JUDGMENT WOULD THEN BE MADE WHETHER THE FACTS OF THE SITUATION REQUIRED THE COUNTRY TO MAKE ADJUSTMENTS.

13. MR. VOLCKER DID NOT DISAGREE WITH THE NEED FOR JUDGMENT IN USING A SET OF INDICATORS. HOWEVER, HE DIFFERED FROM

THE MINISTER IN REGARDING THE INDICATORS AS A PRESUMPTIVE SIGNAL FOR ACTION. THE ONLY WAY TO KEEP THE SYSTEM UNIFORM AND SYMMETRICAL IS FOR ALL COUNTRIES TO BE SUBJECT TO THE SAME PRESSURES. THIS IS THE CORE OF A SYSTEM BASED ON CONVERTIBILITY AND PAR VALUES. THE QUESTION IS HOW DOES IT OPERATE IN PRACTICE. MR. VOLCKER EMPHASIZED THAT DEFICIT COUNTRIES ARE SUBJECT TO OBJECTIVE INDICATORS WHEN THEY RUN OUT OF RESERVES. THEY ARE OBLIGED TO TAKE ACTION EITHER WITH OR WITHOUT IMF CONSULTATION. HE DID NOT OBJECT TO THAT KIND OF DISCIPLINE. BUT HOW IS SUCH A SYSTEM TO OPERATE FOR SURPLUSES WHERE PRESSURES ARE QUITE DIFFUSE AND CONSIST PRINCIPALLY OF INCREASED DOMESTIC LIQUIDITY. SINCE THE CONVERTIBILITY ASPECT OF THE SYSTEM IS QUITE CLEARCUT, IT IS ESSENTIAL TO GET SURPLUS COUNTRIES TO MAKE ADJUSTMENTS SO AS TO PREVENT BUILDUP OF PRIMARY RESERVE ASSETS. MR. VOLCKER SAID HE HOPED THAT JAPAN WOULD BE ABLE TO AGREE TO THIS ASPECT OF REFORM.

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14. MR. INAMURA CONCEDED THAT COUNTRIES IN DEFICIT WERE UNDER PRESSURE. HOWEVER, THEY COULD ALWAYS RESORT TO BORROWING FROM A RESERVE CENTER COUNTRY IN AN EFFORT TO POSTPONE TAKING CORRECTIVE ACTION. FURTHERMORE, IT WAS NOT CLEAR TO HIM HOW EVEN RESERVE CENTERS COULD BE PRESSURED INTO MAKING ADJUSTMENTS BECAUSE RESERVE LEVELS COULD BE RELATIVELY UNAFFECTED THROUGH SHORT-TERM BORROWING. FOR THIS REASON, HE BELIEVED THE BASIC BALANCE WAS PERHAPS A MORE RELIABLE INDICATOR. MR. VOLCKER REPLIED THAT IF THE U.S. RAN A DEFICIT HE EXPECTED OTHER COUNTRIES TO CONVERT THEIR DOLLARS SO THAT THE U.S. WOULD LOSE PRIMARY ASSETS AND NOT AVOID HAVING TO TAKE APPROPRIATE MEASURES.

15. MR. INAMURA NOTED THE U.S. PROPOSALS CREATE PROBLEMS FOR THE GOJ IF JAPAN WAS OBLIGED TO GET BUDGETARY APPROVAL TO PAY PENALTY INTEREST ON A LARGE INCREASE IN SDR HOLDINGS. MR. VOLCKER REPLIED THAT BUDGET APPROVAL AND PAYMENT OF INTEREST FAILS TO DEAL WITH THE FUNDAMENTAL PROBLEM, NAMELY, OF PREVENTING A COUNTRY FROM HOARDING RESERVES.

16. MR. VOLCKER OBSERVED THAT THERE WAS A CHOICE BETWEEN TWO TYPES OF SYSTEMS, EITHER A TIGHT OR A LOOSE METHOD OF SETTling IMBALANCES. UNDER THE FORMER, ALL IMBALANCES WOULD BE SETTLED PROMPTLY IN SDR'S. BUT A TIGHT SETTLEMENT SYSTEM WOULD REQUIRE A TIGHT ADJUSTMENT PROCESS, THAT IS, VERY PROMPT ADJUSTMENTS BY BOTH SURPLUS AND DEFICIT COUNTRIES. HE PERSONALLY BELIEVED THAT
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17. MR. INAMURA FAVORED A TIGHT SYSTEM BUT HAD RESERVATIONS ABOUT AN ADJUSTMENT PROCESS BASED UPON INDICATORS. MR. VOLCKER SAID HE HAD NO SUCH RESERVATIONS. THE ENTIRE HISTORY OF THE BRETTON WOODS SYSTEM, HE SAID, INDICATES THE DIFFICULTY OF THE IMF DECIDING WHAT ACTIONS A COUNTRY SHOULD TAKE IF THEY INVOLVE POLITICAL PROBLEMS FOR THAT COUNTRY. HE RECALLED THE ADAGE THAT: IF SMALL COUNTRIES HAVE PROBLEMS THEY GET "IN LINE" WITH IMF RECOMMENDATIONS, THAT THE IMF GETS "IN LINE" IF BIG COUNTRIES HAVE PROBLEMS, AND IF THE BIG COUNTRIES BEGIN TO DISAGREE THE IMF WILL DISAPPEAR.

18. THE DISCUSSION THEN TURNED TO THE SUBJECT OF GOLD. MR. VOLCKER SAID THE MONETARY SYSTEM COULD NOT BE BUILT AROUND GOLD FOR IT WOULD BE A SOURCE OF INSTABILITY EVERY TIME GOLD USAGE INCREASED OR THERE WAS SPECULATION IN IN GOLD. MOREOVER, IT WAS IMPORTANT THAT THE VOLUME OF THE CENTRAL RESERVE ASSET BE CONTROLLED TO "APPROPRIATE" AMOUNTS. THERE WERE SOME WHO WANTED GOLD TO PLAY A ROLE AS IT DID UNDER THE OLD GOLD STANDARD SYSTEM. THE U.S., HOWEVER, WAS OPPOSED TO SUCH A ROLE, BELIEVING THAT THERE WOULD BE A DECLINE IN THE USE OF GOLD AS A MONETARY RESERVE
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ASSET. IT WOULD BE POSSIBLE TO PERMIT COUNTRIES TO SELL GOLD IN THE PRIVATE MARKET IN CASE OF BALANCE OF PAYMENTS NEED OR IF THEY WISHED TO DO SO. THIS WAS PERHAPS THE EASIEST WAY OF DISPOSING OF THE ISSUE OF WHAT ROLE GOLD SHOULD PLAY IN THE NEW SYSTEM. MR. VOLCKER HOPED THIS WAS

ONE POINT ON WHICH JAPANESE THINKING COINCIDED WITH THE U.S.

19. MR. INAMURA ASKED ABOUT THE U.S. VIEW ON RETAINING AN OFFICIAL PRICE FOR GOLD. MR. VOLCKER REPLIED THAT THERE WERE NO STRONG TECHNICAL ARGUMENTS FOR RETAINING AN OFFICIAL PRICE. THERE WAS A PSYCHOLOGICAL PROBLEM, WHICH IF NOT SETTLED NOW COULD CREATE MORE PROBLEMS IN THE FUTURE.

20. MR. INAMURA ASKED ABOUT THE U.S. VIEWS REGARDING THE DEFINITION OF THE SDR. MR. VOLCKER REPLIED THAT THE U.S. WAS NOT AVERSE TO DEFINING THE VALUE OF GOLD OR THE SDR. HOWEVER, IF THE DEFINITION WAS IN TERMS OF A

"BASKET OF CURRENCIES" IT COULD CREATE SERIOUS TECHNICAL PROBLEMS FOR WHENEVER A COUNTRY WHOSE CURRENCY WAS INCLUDED IN THE "BASKET" CHANGED ITS EXCHANGE RATE, THE VALUE OF THE SDR WOULD ALSO CHANGE. FOR THE U.S., IT WOULD MEAN SEEKING CONGRESSIONAL APPROVAL ON THE MAINTENANCE OF THE VALUE OF THE DOLLAR WHICH COULD BE VERY TROUBLESOME. PERHAPS IT WOULD BE POSSIBLE FOR THE U.S. TO GET AUTOMATIC AUTHORITY FROM THE CONGRESS ON MAINTENANCE OF VALUE FOR THIS KIND OF A SYSTEM. HOWEVER, OTHER COUNTRIES COULD ALSO FIND THE MOV ASPECT CREATED DIFFICULTIES FOR THEM AND IT WAS A BIG NUISANCE.

21. MR. VOLCKER ALSO COMMENTED THAT SOME EUROPEANS WERE ADVOCATING SALE OF GOLD BETWEEN GOVERNMENTS. HE PERSONALLY BELIEVED THAT THIS MIGHT ULTIMATELY LEAD TO THEIR INSISTENCE ON THE NEED TO STABILIZE THE PRICE OF GOLD IN THE PRIVATE MARKET.

22. TURNING TO THE SDR-AID LINK, MIN AICHI STRESSED THE IMPORTANCE FOR JAPAN OF TAKING A SYMPATHETIC ATTITUDE TOWARD THE LDC'S AND INQUIRED ABOUT THE U.S. VIEWS. MR. VOLCKER REPLIED THAT THE ADMINISTRATION WAS GIVING THOUGHT TO MAKING USG APPROPRIATIONS TO IDA DIRECTLY IN SDR'S. IF
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THE LINK IDEA WAS APPROVED, HE COMMENTED IT WAS QUITE POSSIBLE THAT THE CONGRESS WOULD FEEL ENTITLED TO GET DIRECTLY INVOLVED IN DECISIONS ON FUTURE ALLOCATIONS OF SDR'S. MR. VOLCKER PERSONALLY BELIEVED THE LINK INVOLVED A VERY SERIOUS QUESTION REGARDING THE LIABILITY OF SDR'S. IF, TO TAKE AN EXTREME CASE, THE LDC'S GOT THE ENTIRE ALLOCATION OF SDR'S, WOULD THEY ALSO HAVE THE LIABILITIES? IF SO, THE ASSETS WOULD HAVE LITTLE VALUE IN THE EYES OF CONGRESS AND BUSINESSMEN.

23. MIN AICHI COMMENTED THAT IN PRINCIPLE THE LINK COULD BE SEPARATED FROM THE ISSUE OF REFORM, BUT IN THE JAPANESE CONTEXT, THEY COULD NOT BE ENTIRELY SEPARATED. IN REPLY TO

MR. VOLCKER'S QUESTION ON WHETHER JAPAN WAS SYMPATHETIC TO OR ACCEPTED THE LINK, MIN AICHI SAID THIS WAS A VERY DIFFICULT QUESTION. MR. VOLCKER SAID THE U.S. WAS QUITE WILLING TO BE FORMALLY OPPOSED TO THE LINK BUT IT WOULD BE HELPFUL IF JAPAN AND OTHER COUNTRIES WOULD CONTINUE TO QUESTION THE DESIRABILITY OF AN SDR-AID LINK.

24. MR. VOLCKER ASKED WHETHER JAPAN WAS WILLING TO HAVE ALL OF ITS RESERVES IN SDR'S. MIN AICHI REPLIED THAT THIS WAS UNDER REVIEW ALONG WITH THE POSITION WITH RESPECT TO GOLD. MR. VOLCKER COMMENTED THAT HE KNEW OF NO WAY THAT JAPAN COULD CONVERT ITS RESERVE ASSETS INTO GOLD, WHICH WAS NOT A GOOD INVESTMENT IN HIS OPINION. MIN AICHI RECOGNIZED THAT THERE WAS A GENERATION GAP REGARDING ATTITUDES TOWARD THE ROLE OF GOLD AND RESERVES.

25. MR. VOLCKER SAID HE IS VERY ANXIOUS TO MAKE THE SDR A VALUABLE ASSET BUT HE WORRIES VERY MUCH ABOUT THE BACKING OF SDR'S. IF THERE WERE A GENERAL CONSOLIDATION OF DOLLAR HOLDINGS, THEN ITS BACKING WOULD BE DOLLARS. WOULD PEOPLE FEEL ANY BETTER OFF IF THE DOLLAR HAD AN EXCHANGE GUARANTEE?

26. MIN AICHI EMPHASIZED THE NEED FOR THE DOLLAR TO RECOVER ITS INHERENT STRENGTH. HE REFERRED TO THE RECENT DECLINE IN JAPANESE RESERVES, A TREND WHICH, IF CONTINUED, WOULD LEAD TO A SUBSTANTIAL DROP IN THE LEVEL OF JAPAN'S RESERVES. MIN AICHI BELIEVED, DESPITE MR. EBERLE'S RESERVATIONS, THAT THE CURRENT ACCOUNT SURPLUS WILL CONTINUE TO DECLINE
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AS A RESULT OF POLICY MEASURES ALREADY TAKEN TO REDUCE JAPAN'S LARGE PAYMENTS SURPLUS. MR. VOLCKER HOPED THE MINISTER'S ASSESSMENT WAS CORRECT.

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27. MR. VOLCKER COMMENTED THAT UNDER THE PRESENT SYSTEM OF FLOATING CURRENCIES, SALES OF FOREIGN EXCHANGE BY THE GOJ CREATED THE SAME PRESSURE ON THE DOLLAR AS PRIVATE SALES. WHILE HE WAS HAPPY TO SEE THE TURNAROUND IN THE JAPANESE FOREIGN EXCHANGE MARKET PRESSURES, HE COMMENTED THAT THE MARKET DOES NOT NEED TO BE PUSHED ARTIFICIALLY, AS SOME UNCONFIRMED SOURCES SUGGEST. AS LONG AS THE U.S. WAS NOT IN SURPLUS, CAPITAL EXPORTS FROM JAPAN WOULD MERELY PUT PRESSURES ON EXCHANGE MARKETS IN OTHER COUNTRIES. MR. MATSUKAWA REPLIED THAT THE DESTINATION OF THE BULK OF THE CAPITAL OUTFLOWS HAD BEEN TO THE U. S., AT LEAST IN THE INITIAL TRANSACTION.

28. MR. VOLCKER THAN TURNED TO THE DISCUSSIONS ON INVESTMENT TAKING PLACE IN THE OECD XCSS. HE MENTIONED THE NEED FOR INTERNATIONAL RULES OF REASON ON INVESTMENT POLICIES TO PREVENT THE KINDS OF DISTORTION IN INVESTMENT POLICIES THAT ARE TAKING PLACE IN CANADA AND MEXICO, FOR EXAMPLE, AND WHICH HAD AN ADVERSE IMPACT ON THE U.S.

29. MIN AICHI RETURNED TO THE JULY C-20 MINISTERS MEETING. HE FELT THERE WAS A NEED TO SHOW PROGRESS IN THE REFORM
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NEGOTIATIONS. THIS COULD NOT BE DONE WITHOUT SOME SORT OF A COMMUNIQUE. MR. VOLCKER BELIEVED THE PRESS SHOULD BE TOLD THAT IT WAS NOT THE OBJECTIVE OF THE MINISTERS TO REACH AGREEMENT ON ALL OR EVEN LARGE PARTS OF THE NEW SYSTEM AT THE MEETING. IF THAT WAS NOT POSSIBLE, THEN THE U.S. BELIEVED IT WOULD BE BETTER NOT TO CONVENE A MEETING IN THE FIRST PLACE. MIN AICHI AGREEB THAT THE MINISTERS SHOULD TRY TO INDICATE PUBLICLY THAT IT IS NOT THEIR INTENTION TO REACH FULL AGREEMENT ON ALL ASPECTS OF THE SYSTEM.

30. MR. VOLCKER SAID HE WAS CONCERNED ABOUT THE RESULTS OF

THE PROPOSED MEETING, PARTLY BECAUSE HE HAD NOT FOUND MANY AREAS IN WHICH JAPAN COULD SUPPORT THE U.S. THE U.S. WOULD NOT UNDERTAKE OBLIGATIONS THAT IT COULD NOT FULFILL, FOR SUCH A SYSTEM WOULD BE ONE-SIDED AND UNWORKABLE. HE STRESSED THE NEED TO BE REALISTIC REGARDING WHAT THE U.S. CAN AND CANNOT DO. MR. INAMURA NOTED THAT THE REST OF THE WORLD TENDS TO BELIEVE THE U.S. IS TRYING TO AVOID BALANCE OF PAYMENTS DISCIPLINE. MR. VOLCKER AGREED THAT THIS MIGHT VERY WELL BE A CORRECT IMPRESSION BUT IT WAS JUST NOT TRUE.

31. WITH REGARD TO CONSOLIDATION OF DOLLAR HOLDINGS, MR. VOLCKER SAID THAT SMALLER COUNTRIES MIGHT WELL WISH TO CONTINUE TO HOLD DOLLARS. EVEN IF THE RULES PROHIBITED SUCH HOLDINGS, HE BELIEVED THAT SOME COUNTRIES WOULD PROBABLY FIND A WAY TO HOLD THEM ANYWAY. CONSEQUENTLY THE U.S. POSITION ON THIS ASPECT MERELY REFLECTED THE DESIRES OF SOME OTHER COUNTRIES TO CONTINUE TO HOLD DOLLARS.

32. TURNING TO THE QUESTION OF TERMS FOR THE CONSOLIDATION, MR. VOLCKER POINTED OUT THAT THE U.S. WAS NOT IN A POSITION TO PAY ANY MORE THAN IT WAS CURRENTLY PAYING ON OFFICIAL DOLLAR HOLDINGS WHICH HE SAID WAS "PLENTY". IF ARRANGEMENTS COULD BE WORKED OUT THAT WOULD LIMIT THE RATE THE U.S. IS OBLIGED TO PAY (FOR BOTH INTEREST AND EXCHANGE GUARANTEE), HE BELIEVED THERE WOULD BE NO PROBLEM IN GETTING CONGRESSIONAL APPROVAL. HOWEVER, THE U.S. WOULD OBJECT TO PAYING THE BILL FOR A SYSTEM THAT IS SUPPOSED TO BENEFIT EVERYONE, SAID MR. VOLCKER.
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33. IN REPLY TO A QUESTION BY MR. FUJIOKA ON MULTI-CURRENCY INTERVENTION, MR. VOLCKER SAID THAT IN PRINCIPLE THERE IS NO REASON WHY IT CANNOT BE MADE IN 125 SEPARATE CURRENCIES. HOWEVER, MARKETS FOR SOME CURRENCIES ARE VERY THIN. THEREFORE, FOR PRACTICAL PURPOSES HE BELIEVES THAT INTERVENTION WOULD TEND TO BE LIMITED TO PERHAPS 10 TO 15 DIFFERENT CURRENCIES.

34. THE GENERAL DISCUSSION DURING THE COUNTERPART LUNCHEON SESSION WAS CONCLUDED AT THIS POINT.
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Errors: N/A
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Handling Restrictions: n/a
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Review Media Identifier:
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Subject: ECONCOM IX - COUNTERPART MEETING MOF-TREASURY
TAGS: EGEN, OCON, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005